

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



***National Oceanic and
Atmospheric Administration***

***Real Property Portfolio:
Opportunities to Strengthen
Management Accountability***

Report No. BSD-18256-8-0001/March 2008

Office of Audits





UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

MAR 16 2008

MEMORANDUM FOR:

William F. Broglie
Chief Administrative Officer
National Oceanic and Atmospheric Administration

FROM:

Allison Lerner 
Acting Assistant Inspector General for Audits

SUBJECT:

*Real Property Portfolio: Opportunities to Strengthen
Management Accountability*
BSD-18256-8-0001

This memo is to advise you of the results of our audit concerning NOAA's real property portfolio. Based on our audit results, we have made several observations.

As we discussed in our October 1, 2007, meeting, we conducted an audit to identify opportunities to enhance the National Oceanic and Atmospheric Administration's (NOAA's) accountability and management effectiveness over real property. Our audit covered real property management during FYs 2005-2006. We evaluated NOAA's management controls over real property and its compliance with Executive Order 13327 (EO). We assessed the reliability of computer-processed data produced by NOAA's Integrated Facility Inspection Program. We reviewed the NOAA Real Property Management Division's (RPMD) FY 2006 survey of NOAA real property and discussed anomalies NOAA identified in the computer-processed data generated by this program with RPMD officials. However, we did not determine the cause of these anomalies or their impact on the reliability of computer-processed data because RPMD officials told us they intended to investigate the issue. The methodology used to conduct the audit included (1) reviewing federal guidance and legislation; (2) examining and analyzing relevant documents and other media; (3) interviewing appropriate federal, department, and NOAA officials and staff as well as an outside consultant hired to evaluate NOAA's lease portfolio; and (3) inspecting selected real properties during our visits to the NOAA Real Property Management Division's (RPMD) Kansas City and Seattle regional offices.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our fieldwork from August 2006 to March 2007 at NOAA headquarters in Silver Spring, Maryland, and RPMD regional offices in Kansas City, Missouri, and Seattle.

We noted the strides NOAA already has made, and continues to make or has committed to make, to strengthen the management of its real property portfolio. Among other things, NOAA has realigned management of its facilities/logistics program responsibilities, with emphasis on a strong headquarters function; begun an asset management planning process; strengthened lease processing procedures; and worked to achieve real property operational efficiencies through collocation at Ford Island in Hawaii. However, NOAA could strengthen some management controls to improve accountability over real property and enhance its compliance with EO 13327, specifically in the areas of reporting, holdover leases, IFIP Database, and underutilized and unutilized real properties.

Reporting

We found that at the start of our review RPMD did not have the ability to regularly generate and use reports on the status of the holdover leases, operating and maintenance costs for assets, or building utilization through the Department's Federal Real Property Management System database (FRPM). Regular use of such reports would benefit RPMD managers at all levels, providing them with information needed to make more timely decisions regarding data validation and performance. GAO's *Standards for Internal Control in the Federal Government* stresses the importance of timely information and communications. RPMD officials explained that at the time we began our job, FRPM did not contain all of the data elements necessary to generate the reports. We understand that during the course of this review, RPMD developed the capacity to generate these reports and hope that it will regularly use these status reports for property management.

Holdover Leases

NOAA leases a number of properties. Generally, the lease agreements include an option to renew with the same terms and conditions as the initial term provided that the government gives written notice to the lessors at least 30 days before the end of the original or renewal term. Timely exercise of this option locks in the existing favorable rental rate and other agreement terms and conditions during the renewal period. If the government fails to exercise this option but wishes to retain possession of the leased premises, the lease goes into holdover status. During this time, rent must be paid on a month-to-month basis at the rate during the previous lease term until a new lease agreement is reached.

The risks associated with occupying leased property without a legal agreement in place are potentially significant. By allowing the previous lease agreements to expire, NOAA must renegotiate the terms of each lease and risks having to pay higher rent or agree to unfavorable terms and conditions. Should NOAA not be able to negotiate acceptable terms, it faces potential unplanned expenses for moving personnel and equipment to a new location.

During our audit, we noted that the number of NOAA leases in holdover status is extensive and growing. In January 2006, a real estate services firm hired by NOAA to

evaluate RPMD's lease portfolio reported 127 holdover leases.¹ However, according to NOAA, by September 2006, this number had increased to 318; 188 in RPMD's Western Region and 130 in its Eastern Region. In addition, the consulting firm reported that 1,199 agreements will expire between 2006 and 2010. The majority (627) expired in 2006 and 2007.

NOAA officials told us that many of the agreements expired at roughly the same time. The officials also said that this situation, combined with inadequate RPMD staffing, has caused the backlog. We recognize that many of these leases represent relatively small dollar or rent-free leases, such as for Automated Surface Observing System weather monitoring sites, but we encourage RPMD to develop a strategy to address the growing backlog of these leases.

IFIP Database

We also followed up on anomalies that should be resolved in NOAA's Integrated Facility Inspection Program (IFIP) database. NOAA found that some database information, although not verified by us, appeared to be inaccurate, resulting in estimated repair costs for various facilities that may have significantly exceeded the current replacement values of those facilities. NOAA uses such amounts to calculate the facility condition index (FCI), which is a general measure of an asset's condition at a specific point in time. The FCI is calculated by dividing the estimated cost of an asset's repair needs by its current replacement value. The lower the FCI, the better the condition of the asset. EO 13327 requires that accurate FCIs be reported annually for buildings and structures to the General Services Administration's (GSA's) centralized real property database.

RPMD's FY 2006 survey of NOAA real property² showed the IFIP database generated FCIs significantly greater than 100% for 13 of the 670 properties covered by the survey. These numbers are anomalous—the estimated costs to repair a property should not exceed its current replacement value unless the building or structure is in such bad shape that it would be cheaper for NOAA to replace than repair it (see Appendix). NOAA should investigate these anomalies and determine if they are erroneous and if so, whether the errors are attributable to data entry errors. If data contained in NOAA's IFIP database is inaccurate, it could negatively impact not only the data contained in GSA's database but also NOAA property managers' ability to target annual investments on the most critical facility deficiencies.

Underutilized and Unutilized Real Properties

Finally, when we began this audit, NOAA had identified 16 underutilized or unutilized real properties during its FY 2005 IFIP survey. In determining the utilization level for these properties, RPMD applied the criteria established by the Office of Management and

¹ *Lease Portfolio Evaluation*, presentation to NOAA's Real Property Management Division by Jones Lang LaSalle, January 11, 2006.

² *NOAA FY06 IFIP Summary of Findings*, issued by NOAA's Real Property Facilities and Logistics Office.

Budget's Federal Real Property Council (FRPC).³ Disposing of unused or underutilized property is critical because such properties are costly to maintain. NOAA has since informed us that it has made progress towards reducing the number of such properties. We urge NOAA to continue to monitor the status of properties and adhere to the FRPC's *Guidance for Improved Asset Management* (issued December 22, 2004) which specifies that agencies should dispose of unneeded assets.

If you would like to discuss any of our audit results, please contact me at (202) 482-1577, or Ronald Lieberman, director of the Business and Science Division, at (301) 713-2070. We appreciate the cooperation and courtesies extended to us by NOAA staff during our review.

Attachment

Fred Fanning
Director, Office of Administrative Services
Department of Commerce

Mack A. Cato
Director, Audit, Internal Control, and Information Management Office

³ According to 2006 *Guidance for Real Property Inventory Reporting*, issued August 4, 2006, utilization categories in terms of percent of building space currently occupied or utilized is as follows: Fully Utilized (Office: 75% or more; Laboratory: 60% or more); Underutilized (Office: less than 75%; Laboratory: 30-60%); Unutilized (Office: empty; Laboratory: less than 30%).

Appendix

Facility Condition Index Anomalies

NOAA IFIP Survey Fiscal Year 2006 Assets With Questionable Facility Condition Indexes (FCI)					
Line Office	Region	Asset No.	Asset Name	Ownership	FCI (%)
1. NWS	Pacific	14000554	WSO Bldg.	DOC owned	243,834.5
2. NWS	Alaska	14000522	RAMOS space	DOC owned	686.4
3. NWS	Alaska	14000523	RAMOS space	DOC owned	679.2
4. NWS	Alaska	AKW08301	RAMOS space	DOC leased	414.9
5. NWS	Pacific	HIW00715	Microwave Receiver Bldg.#7	DOC owned	390.0
6. NWS	Western	CAW23301	NWS space/transmitter & tower	DOC leased	372.3
7. NWS	Alaska	AKW08601	RAMOS space	DOC leased	370.2
8. NWS	Alaska	AKW01503	Housing B-1	DOC owned	354.4
9. NWS	Eastern	14000378	WFO Caribou	DOC owned	338.0
10. NWS	Western	IDW01901	NWR Bldg. space	DOC leased	317.8
11. OAR	ESRL,GMD	AQM00103	Remote Sampling Bldg.	DOC owned	299.6
12. NMFS	NE	RIE00204	Storage Shed #1	DOC owned	247.8
13. NWS	Western	WAW00304	Stand-By Power Bldg.	DOC owned	214.2

Source: IFIP Database